

## Message Text

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PAGE 01 OECD P 25727 01 OF 02 031253Z

46

ACTION EUR-12

INFO OCT-01 ISO-00 STR-04 AID-05 CEA-01 CIAE-00 COME-00

EB-07 EA-07 FRB-03 INR-07 IO-13 NEA-10 NSAE-00

USIA-06 OPIC-03 SP-02 TRSE-00 CIEP-01 LAB-04 SIL-01

OMB-01 SS-15 NSC-05 L-03 OIC-02 PRS-01 PA-01 OES-06

HEW-04 H-02 /127 W

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PASS CEA (CHISWICK)

E.O.11652: N/A

TAGS: ECON, OECD

SUBJECT: ECONOMIC POLICY COMMITTEE (EPC) WP-2: OECD

SECRETARIAT PAPER: PUBLIC EXPENDITURE ON HEALTH (REFDOC)

REFS: (A) CPE/WP2(75)7, (B) OECD PARIS 11166

1. PURSUANT TO AGREEMENT AT APRIL 8 MEETING OF AD HOC GROUP OF EXPERTS ON HEALTH EXPENDITURES (SEE REF B), SECRETARIAT (DOBELL) HAS CIRCULATED LETTER TO HEADS OF DELEGATIONS SUGGESTING MAIN ASSUMPTIONS WHICH COULD BE USED IN DEVELOPING PROJECTIONS OF PUBLIC EXPENDITURE ON HEALTH (LETTER SUMMARIZED PARAS 2 TO 5 BELOW). SECRETARIAT PLANS TO INCORPORATE THESE PROJECTIONS INTO REVISED VERSION OF HEALTH STUDY TO BE CIRCULATED IN LATE SEPTEMBER IN PREPARATION FOR OCT 26-27 WP-2 PLEHARY. (FYI: LETTER ALSO INDICATES THAT SECRETARIAT WILL CIRCULATE SHORTLY A REVISED AND ENLARGED STATISTICAL NOTE AND WILL REQUEST SUBMISSION OF COUNTRIES' COMMENTS

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PAGE 02 OECD P 25727 01 OF 02 031253Z

AS FAR AS POSSIBLE IN ADVANCE OF OCT WP-2 MEETING.

MISSION WILL FORWARD STATISTICAL NOTE TO WASHINGTON WHEN AVAILABLE.) ACTION REQUESTED: IN ORDER TO TAKE COUNTRIES' COMMENTS ON ASSUMPTIONS AND METHODOLOGY INTO ACCOUNT IN PREPARING REVISED STUDY, SECRETARIAT URGES THAT RESPONSES BE SUBMITTED BY SEPTEMBER 15. MISSION WOULD APPRECIATE WASHINGTON REACTION TO FOLLOWING MISSION SUMMARY OF SECRETARIAT PROPOSALS BY THAT DATE.

2. BEGIN SUMMARY: WITH RESPECT TO QUESTION OF PROJECTIONS AND RELATED POLICY ISSUES, SECRETARIAT NOTES THAT AD HOC GROUP (AT APRIL 8 MEETING) TENTATIVELY AGREED THAT GENERAL STATISTICAL FRAMEWORK (I.E. DECOMPOSITION OF EXPENDITURE INTO COVERAGE RATIO, TRANSFER RATE, USE RATIO, ETC) SHOULD BE KEPT. WITHIN THIS FRAMEWORK SECRETARIAT PROPOSED THAT TWO BASIC APPROACHES TO DEVELOPING HYPOTHETICAL EXPENDITURE PROJECTIONS COULD BE ADOPTED:

(1) CONSIDER EXPENDITURE IMPLICATIONS OF CONTINUATION OF EXISTING TRENDS AND POLICIES, BUT TAKE INTO ACCOUNT STRUCTURAL FEATURES SUCH AS PRESENT ATTAINMENT OF NEAR UNIVERSAL COVERAGE IN MANY COUNTRIES AND TECHNOLOGICAL TRENDS SUCH AS SHORTER IN-PATIENT SPELLS. VARIANTS ON THIS "NO POLICY CHANGE" ASSUMPTION MIGHT BE CAST IN TERMS OF ALTERNATIVE HYPOTHESES CONCERNING TRENDS IN THE UNDERLYING COVERAGE, USE COST OR TRANSFER RATIOS. WITH REGARD TO USE RATIO, FOR EXAMPLE, ALTERNATIVE SCENARIOS MIGHT INCLUDE EXTRAPOLATION OF 1960'S - 1970'S TREND; REDUCTION IN PATIENT DAYS PER PERSON PROTECTED; A "TECHNOLOGICAL SHIFT" DRAMATICALLY REDUCING PATIENT DAYS BUT INCREASING AMBULATORY MEDICAL SERVICE; SUCCESS IN CURTAILING THE "ABUSE OF MEDICINES."

(2) CONSIDER IMPLICATIONS FOR UNDERLYING RATIOS OF AN IMPOSED CEILING ON HEALTH EXPENDITURES SET, FOR EXAMPLE, BY THE REQUIREMENT THAT SHARE OF GNP DEVOTED TO HEALTH EXPENDITURES SHOULD REMAIN CONSTANT OVER TIME OR SHOULD ONLY RISE BY A SPECIFIED AMOUNT. SECRETARIAT NOTES THAT SINCE TREND TOWARD FULL COVERAGE IS NOT LIKELY TO BE REVERSED IN MOST COUNTRIES A REDUCTION IN LIMITED OFFICIAL USE

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PAGE 03     OECD P 25727 01 OF 02 031253Z

ELASTICITY OF HEALTH EXPENDITURE TO GNP IMPLIES ATTAINMENT OF ONE OR MORE SUB-OBJECTIVES -- RAPID REDUCTION IN HOSPITAL OR MEDICINE UTILIZATION RATES, CHANGES IN COST-SHARING SCHEMES, CONTROL OF MEDICAL COSTS. SECRETARIAT POSES QUESTIONS OF WHETHER (A) EXPENDITURE CONSTRAINT WOULD REQUIRE SIGNIFICANT MODIFICATION OF RECIPIENTS' BEHAVIOR; (B) SUPPLY LIMITATIONS MIGHT ENTRAIN QUEUEING OR RATIONING.

3. SECRETARIAT STATES THAT VARIANT OF NO-GROWTH ASSUMPTION MIGHT BE NEEDED FOR U.S. WHERE POTENTIAL BENEFICIARIES ARE LESS THAN ONE-THIRD OF POPULATION AND WHERE SUBSTANTIAL SHIFT MAY OCCUR FROM PRIVATE TO PUBLIC FINANCING. (E.G. 100 PERCENT COVERAGE FOR CATASTROPHIC ILLNESS, 66 PERCENT COVERAGE FOR MEDICAL SUPPLIES THROUGH COST-SHARING SCHEME, AND 50 PERCENT COVERAGE THROUGH

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PAGE 01 OECD P 25727 02 OF 02 031257Z

46

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LIMITED OFFICIAL USE SECTION 02 OF 02 OECD PARIS 25727

COST-SHARING SCHEME FOR MEDICAL SUPPLIES).

4. SECRETARIAT CONSIDERS INCREASE IN HOUSEHOLD CHARGES FOR HEALTH CARE (I.E. REDUCTION IN "TRANSFER RATIO") TO BE MOST OBVIOUS WAY TO REDUCE PUBLIC EXPENDITURE ON HEALTH, BUT NOTES THAT SUCH INCREASES HAVE BEEN POLITICALLY DIFFICULT TO IMPLEMENT IN PAST. NEVERTHELESS, SECRETARIAT SUGGESTS THAT HEALTH STUDY EXAMINE IMPACT ON GNP OF INCREASING AVERAGE HOUSEHOLD COST OF MEDICINE

AND MEDICAL SUPPLIES.

5. RE COST CURTAILMENT, SECRETARIAT NOTES THAT RELATIVE COST OF HOSPITAL CARE HAS RISEN IN 1960'S AND 1970'S, AND SUGGESTS FORMULATION OF HYPOTHETICAL PROJECTIONS BASED ON ASSUMPTION OF CONSTANT RELATIVE HOSPITAL COSTS OR INCREASES IN RELATIVE COSTS WHICH ARE OFFSET BY REDUCTION IN SUPPLY OF HOSPITAL CARE. SECRETARIAT ALSO NOTES THAT RELATIVE COST OF MEDICINE HAS DECREASED OVER LAST 15 YEARS AND THAT CONTINUATION OF THIS TREND LIMITED OFFICIAL USE

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PAGE 02    OECD P 25727 02 OF 02 031257Z

UNLIKELY. HOWEVER, SECRETARIAT ADDS THAT ABSOLUTE PRICES DIFFER CONSIDERABLY BETWEEN COUNTRIES, AND SUGGESTS THAT STUDY EXAMINE FUTURE EXPENDITURE IMPLICATIONS OF CONVERGENCE OVER TIME OF COSTS IN ALL COUNTRIES TOWARD LEVEL IN LOWEST COST COUNTRY.  
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